WORKING DOCUMENTS ON COMPETITIVENESS
AND BUSINESS ENABLING ENVIRONMENT - MONGOLIA

Why Businesses Cheat: Mongolia Reforms Confiscatory Costs of Paying Taxes

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ABBREVIATIONS AND ACRONYMS

BPI	USAID/Mongolia Business Plus Initiative project
CGA	Mongolia Customs General Administration
DB	Doing Business
GDP	Gross Domestic Product
GDT	Mongolia General Department of Taxation
IT	Information Technology
MNCCI	Mongolian National Chamber of Commerce & Industry
MNT	Mongolian Tugrik
MOF	Ministry of Finance
MOSA	Mongolian Software Association
SID	Mongolia Social Insurance Department
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

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EXECUTIVE SUMMARY

Mongolia's rank of 57th of 183 countries surveyed on the "Paying Taxes" measure of the World Bank's *Doing Business* 2012 report understates the actual burdens businesses bear. Despite low tax rates, companies face three significant compliance burdens that were not counted by the World Bank. Including those three – quarterly financial reporting to the Ministry of Finance (MOF), duplicative submissions of paper and online reports, and employee withholding requirements – worsens Mongolia's ranking, summarized in Exhibit 1:

Exhibit 1 – "Paying Taxes" Overview

Indicator	DB 2012	Actual 2012	After Reforms
Payments (Number)	41	101	6
Time (Hours)	192	593	136
Total Tax Rate (% of Profits)	24.6	24.6	24.6
"Paying Taxes"	**57**	**134**	**7**
Cost to Business	**N/A**	**93.5 Billion MNT**	**21.5 Billion MNT**

- Mongolia's score on the Payments indicator, which reflects the number of payments and reports a business must make, would increase from 41 to 101.
- Its score on the Time indicator, which measures the total time required to comply with business tax obligations, would increase from 192 hours to 593 hours.
- Worsening of Mongolia's scores in the Payments and Time indicators would lower its overall "Paying Taxes" rank from 57th to 134th of 183 countries surveyed.

It costs Mongolian businesses about 93.5 billion MNT annually to pay all of their taxes. Nonetheless, a package of reforms described in this BPI Working Document, some already being implemented by Mongolia's General Department of Taxation (GDT), could reduce these costs to 21.5 billion MNT; an annual savings of 72 billion MNT or $55 million. These reforms are technically simple, would not impair government's ability to oversee compliance, and would probably not cost more to implement than government saves in administrative costs. The recommended reforms address a chronic problem of inefficient government regulation that crushes economic growth and job creation at almost every intersection between business and government in Mongolia. The problem is that government habitually requires business to bear the burden in time and expense to tell government what government already knows.

This problem is so pervasive and so easy to remedy that, with political will, Mongolia could rapidly overhaul its business environment, leading to increased job creation, diversified economic growth, and more profits that produce more in tax revenues. Similar reforms to other *Doing Business* measures like "Trading Across Borders" and "Dealing with Construction Permits" could dramatically improve Mongolia's overall World Bank "Ease of Doing Business" ranking, now 86th. Recognition as a World Bank Top 10 reformer requires that a country implement reforms to a least three of the 10 *Doing Business* measures. Eligible countries are then ranked by how much their reforms improve their overall "Ease of Doing Business" rank. The reforms recommended herein could improve Mongolia's "Paying Taxes" rank from 57th to 7th. That in turn would increase its overall "Ease of Doing Business" rank from 86th to 69th, up 17 places. Morocco, the World Bank's top reformer on *Doing Business* 2012, improved 21 ranks. Number 10, Columbia, improved only five. With reforms to just two more measures, Mongolia could be virtually guaranteed to be a Top 10 reformer on *Doing Business* 2014, which will reflect reforms implemented between June 1, 2012 and May 31, 2013. All that is required is political will and a commitment by government to talk to itself.

SECTION I: MONGOLIA'S PERFORMANCE ON "PAYING TAXES"

A. Why businesses cheat

In "Paying Taxes" as in other areas of regulatory oversight[1] Mongolia violates a key principle of regulatory efficiency first promulgated by Vakhtang Lejava, Chief Advisor to the Prime Minister of Georgia and one of the architects of that country's reforms. Mr. Lejava stated that "Government should never ask a citizen or business for information it already has." Mongolia financial and tax reporting requirements violate this principle repeatedly, requiring businesses to tell the same government agency the same information twice – as in the case of GDT, MOF, and Social Insurance requirements that businesses file both paper and online reports – and to provide the same information to different agencies – as in the case of requiring businesses to file separate reports with the same information to GDT for employee withholding and to Social Insurance for employee pension payments. In another context, the Mongolian National Chamber of Commerce and Industry (MNCCI) documents similar inefficiencies by mapping key processes required to import and export various goods in its publication, "The Road Map of Doing Business in Mongolia."[2] How can Mongolian meat producers ever break into international markets with competitive prices when meat exporters waste time and money providing six different government agencies with government information – the Certificate of State Registration?

This extraordinary degree of inefficiency suppresses business growth, and robs society of the jobs and diversified economic growth that efficient regulation would produce. Mongolia has but one government. Why do its parts act so independently and impose such exorbitant costs on citizens and business? Is it really fair and just to expect citizens and businesses to comply with such byzantine, costly regulatory regimes? National statistics estimate the shadow economy at 27 percent of GDP[3]. GDT officials suspect the true size of the shadow economy may be as much as 50 percent of GDP or more, [4] despite the fact that Mongolia has quite low tax rates. The costs of inefficiency are greatest for smaller firms, where it threatens their survival. Larger firms are better able to absorb the costs. But all firms, without regard to size, are less profitable, struggle to grow, add fewer jobs, and pay less in taxes because Mongolia's government is so profoundly inefficient that it requires business to tell it, repeatedly and at great cost, what it already knows. This is why businesses cheat on their taxes.

B. Introduction and objectives

Reforms now underway by the GDT promise relief for Mongolian businesses from compliance burdens for paying taxes that are so costly and complicated as to be fairly characterized as confiscatory.

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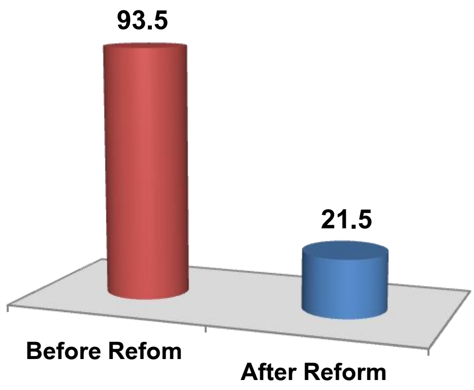
[1] *See,* BPI Working Document "Preliminary Estimates of the Staggering Costs of Regulatory Inefficiency," available in Mongolian and English languages at http://bpi.mn/index.php/publications/reports.html.

[2] Available in English at http://www.mongolchamber.mn/en/documents/Roadmap_eng.pdf, and in Mongolian at: http://www.mongolchamber.mn/sur/bus_zam/index.html.

[3] As reported by: http://www.asuu.mn/medleg/ediin-zasag/124/1007200011

[4] Interview with Dr. B. Battumur, Commissioner, GDT, available at http://journalism.sodonsolution.com/content/26993.shtml.

Exhibit 2 – Costs of Paying Taxes in Mongolia
(in MNT billions)



Although Mongolia ranks 57th of 183 economies surveyed on the "Paying Taxes" indicator of the World Bank's annual *Doing Business* 2012 report, significant compliance burdens are not included. This BPI Working Document uses "Paying Taxes" and its three indicators as a framework to identify all the regulatory burdens faced by Mongolian businesses, estimate the time required for compliance, and calculate the monetary costs of the current gross inefficiency. If the current reforms succeed and others suggested herein are adopted, compliance cost for business could be reduced by more than 77%, from about 93.5 billion MNT now to 21.5 billion MNT, an annual savings of about 72 billion MNT, or $55 million.[5] See Exhibit 2. The reforms are technologically simple, will probably save the government more than they cost, and can be implemented rapidly, in time to dramatically improve Mongolia's "Paying Taxes" ranking on the *Doing Business* 2014 report. An improved score matters as international investors pay close attention to country rankings when determining where to invest.

Exhibit 3 - Paying Taxes Indicators

Tax payments for a manufacturing company in 2010 (number per year adjusted for electronic and joint filing and payment)
Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)
Method and frequency of filing and payment
Time required to comply with 3 major taxes (hours per year)
Collecting information and computing the tax payable
Completing tax return forms, filing with proper agencies
Arranging payment or withholding
Preparing separate mandatory tax accounting books, if required
Total tax rate (% of profit before all taxes)
Profit or corporate income tax
Social contributions and labor taxes paid by the employer
Property and property transfer taxes
Dividend, capital gains and financial transactions taxes
Waste collection, vehicle, road and other taxes

"Paying Taxes" is one of ten measures of regulatory efficiency that comprise the overall "Ease of Doing Business" ranking, on which the country is 86th. "Paying Taxes" has three equally weighed indicators – Payments, Time, and Total Tax Rate – summarized in Exhibit 3,[6] at right, and discussed in greater detail below. With Mongolia's "Paying Taxes" ranking as the framework, this Working Document will:

- Use the Payments and the Time indicator methodologies to quantify additional compliance burdens on business that are not included in the *Doing Business* "Paying Taxes methodology.
- Calculate the costs of these compliance burdens and monetize the benefits of reforms that Mongolia's General Department of Taxation is already beginning to implement.
- Identify reforms that can both dramatically reduce the current confiscatory compliance burdens on business, and contribute to Mongolia being recognized as a "Top 10 Reformer" on the World Bank's *Doing Business* 2014 report.[7]

[5] Conversions from Mongolia tugrik to U.S. dollars are at the rate of $1 = 1310 MNT.
[6] Exhibit 1 is from the *Doing Business* description of the "Paying Taxes" methodology, available at http://www.doingbusiness.org/methodology/paying-taxes.
[7] The Top 10 reformers are chosen from among countries that have implemented reforms on at least three of the 10 indicators, based on the number of rank improvements in overall "Ease of Doing Business". For *Doing Business* 2012, Morocco was the world's top reformer; reforms on three indicators improved its ranking 21

- Establish accurate baselines that can be used to develop indicators for GDT, the GOM, and Mongolian citizens and businesses to identify compliance burdens and monitor progress on removing them.[8]

Another key purpose of this Working Document is to demonstrate a methodology for quantifying the costs inefficient regulation and monetizing the benefits of reforms. Borrowed from the country of Georgia, the world's leading reformer over the last several years, the methodology can be applied to every regulatory interaction between business and government.[9] Quantifying the costs of inefficient regulation is a fairly simple matter. It requires:

- Identifying the number of procedural steps businesses are obligated to take in order to comply. In the sections of this paper that follow, we will identify the number of procedures actually required to comply with tax obligation, Section II, using the Payments methodology, identifies a total of 101 reports and payments that medium sized businesses must make.
- Based on a small survey of accountants, we find in Section III, that the total time required to comply with tax obligations far exceeds the 192 reported by World Bank. The actual total, including the three additional compliance burdens, is 593.
- In Section IV, we use wage information from the survey of accountants to calculate the total annual cost to an average medium-sized business at 1.9 million MNT, or $1,452. The annual cost of compliance for all taxpayers totals about 93.5 billion MNT or $55 million. The difficulties of compliance place businesses at increased risk of being penalized and vulnerable to rent-seeking, topics not explored herein.
- Section V outlines a package of reforms that can be implemented rapidly, including several already underway by GDT, as well as additional longer-term measures that should begin now. We also discuss key elements of the approach to reform adopted by Georgia that are also present in the GDT reforms, and that contribute to successful rapid implementation.
- In Section VI, we estimate the monetary benefits to business of the package of rapid reforms, including discussion of the methodology involved.
- The paper concludes with some questions for stakeholders to discuss in evaluating whether the recommended reforms can be implemented by May 31, 2013.

places, from 115 to 94. Columbia was the number 10 reformer, with three reforms improving its ranking five places, from 47 to 42.

8 Simultaneously with the issuance of this Working Paper, the Excel-based models from which the calculations derived have been published at http://bpi.mn/index.php/publications/reports.html, in a document entitled, "Calculations of Compliance Costs of Paying Taxes." The models can be used to test the impact of various assumptions and proposed reforms.

9 For another example, see the BPI Working Document, "Preliminary Estimates of the Staggering Costs of Inefficient Trade Regulation in Mongolia," available in English and Mongolian at http://bpi.mn/index.php/publications/reports.html, which uses the methodology to both identify huge inefficiencies and opportunities for reforms.

C. "Paying Taxes" methodology and Mongolia's ranking

Exhibit 4, at right, summarizes Mongolia's current scores and rankings on DB 2012, the burdens taxpayers actually now labor under, and how the country could rank on DB 2014, after reforms now underway and proposed herein. Mongolia's current scores on the Payments, Time, and Total Tax Rate indicators produce an overall "Paying Taxes" rank of 57th out of 183 economies surveyed. Including compliance obligations omitted by the World Bank increase Mongolia's current rank to 134. A combination of reforms now underway and others that could be implemented relatively quickly can improve dramatically Mongolia's scores on the Payments and Time indicators, entitling it to a rank of about 7th when the *Doing Business* 2014 report is issued in late 2013.[12]

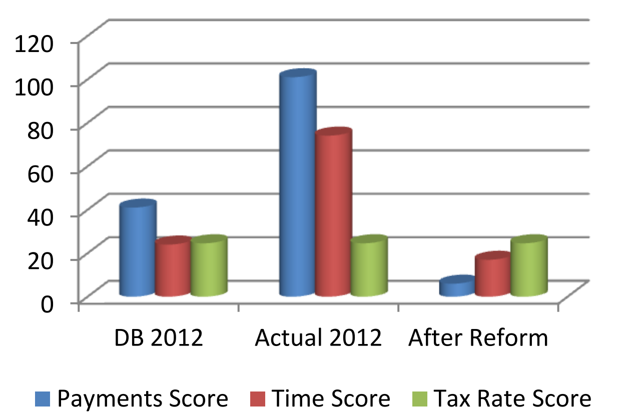
Exhibit 4 – "Paying Taxes" on DB 2012 & 2014[10]

Indicator	DB 2012		Actual 2012		DB 2014	
	Score	Rank	Score	Rank	Score	Rank
Payments (Number)	41	140	101	181	6	8[11]
Time (Hours)	192	69	593	170	136	42
Total Tax Rate (% of Profits)	24.6	25 (55)	24.6	25 (55)	24.6	25 (55)
"Paying Taxes"		**57**		**134**		**7**

Payments (Number): Despite its title, this indicator considers both payments and filing requirements. The World Bank score omits mandatory filing of quarterly and annual financial statements with the Ministry of Finance, which is a pre-condition to filing corporate income tax reports. It also does not account for the practice of making taxpayers file paper reports and then requiring them to re-enter the same data into online reporting systems. Were these included, Mongolia's current score would rise from 41 to 101, and its rank from 140 to 181. With political will, Mongolia could improve its score to 6 and its rank to about 8th on the Payments indicator in time for the *Doing Business* 2014 report, which will reflect reforms implemented from June 1, 2012 through about May 31, 2013.

Time (Hours): Mongolia's score of 192 hours on the Time indicator, which ranks 69th on DB 2012, understates significantly the time required to comply with all financial and tax reporting and payment obligations. Based on a survey of accountants responsible for preparing business tax and financial reports, carried out in cooperation with the Mongolian Federation of Employers, BPI estimates that the time required to perform all obligations is 593 hours, which would rank 170th. Reforms now underway at GDT, however, should dramatically reduce the time required for the *Doing Business* 2014 report. With

Exhibit 5 – Paying Taxes in Mongolia per Score Type



[10] Predictions about what Mongolia's scores will be in 2014 assume that other countries do not also reform to improve their ranks at Mongolia's expense.
[11] Assuming other countries did not also reform, Mongolia would be in a three-way tie for eighth place on the Payments indicator.

the additional reforms recommended herein, Mongolia could reduce the time required, even including the three additional burdens, to a score of 136, which would rank it about 42nd.

Total tax rate: The total tax rate indicator is not the total of relevant tax rates, but a rather complicated measure of the effective cost of all taxes a business bears as a percentage of its profits developed in collaboration with PriceWaterhouseCoopers, the international accounting firm. At 24.6 percent, Mongolia's score ranks it 25th in the world. However, the methodology used includes a minimum threshold of 32.5 percent. Fifty-five countries are at or below the threshold. The World Bank treats all 55 countries as if they had a Total Tax Rate of 32.5 percent. Thus, lowering Mongolia's actual rate would not improve its score. The reason for the threshold provides a useful opportunity for a digression to discuss politics, policy and process in the context of business enabling environment reforms.

D. Politics, policy, and process

The threshold for the total tax rate indicator is defined as the highest rate among the top 30 percent of economies in the ranking on the total tax rate. For the 2012 report, that threshold is the 32.5 percent total tax rate for Sao Tome and Principe, an island nation off the western coast of Central Africa. All 55 economies, including Mongolia, that have a total tax rate at or below this threshold are given a score of 32.5 percent. Why? The "Paying Taxes" methodology explains: "The threshold is not based on any underlying theory. Instead, it is intended to mitigate the effect of very low tax rates on the ranking on the ease of paying taxes."

The Payments and Time indicators measure the *efficiency* of the *processes* government uses to collect revenue. The Total Tax Rate indicator is intended to measure the *effectiveness* of government *policy* in promoting investment and entrepreneurship. The theory and methodology underlying the indicator is discussed in a research paper, "The Effect of Corporate Taxes on Investment and Entrepreneurship," which found:

> *[E]ffective corporate tax rates have a large and significant adverse effect on corporate investment and entrepreneurship. ... Higher effective corporate income taxes are also associated with lower investment in manufacturing but not in services, a larger unofficial economy, and greater reliance on debt as opposed to equity finance. In these new data, corporate taxes matter a lot, and in ways consistent with basic economic theory.*[13]

Some societies adopt values that elevate policies other than just promoting investment and entrepreneurship. In Sweden, for example, citizens have opted for a comprehensive social safety net and health care system that is expensive. Its total tax rate is 52.8 percent, 144th out of the 183 countries surveyed. However, Sweden's government has implemented its high tax *policy* with very efficient *processes*. On the Payments indicator, it is in a three-way tie for fourth best in the world. It ranks 32nd on the Time indicator with 122 hours required a year to prepare, file, and pay its relatively high taxes. Had it made a different policy choice, and lowered its tax rate to the 32.5 percent threshold, it's "Paying Taxes" rank would rise from its current 50th to 6th, and its overall "Ease of Doing Business Ranking" would increase from 14th to 8th.

[13] S. Djankov, et al, The Effect of Corporate Taxes on Investment and Entrepreneurship, American Economic Journal: Macroeconomics 2 (July 2010): 31–64, 59, available at http://pubs.aeaweb.org/doi/pdfplus/10.1257/mac.2.3.31.

Efficiency is independent of arguments over specific policies, and it is always good politics, regardless of where on the political spectrum policy advocates lie. Whatever policy is chosen can and should be implemented with efficient processes.

SECTION II: MONGOLIA PAYMENTS SCORE V. ACTUAL BURDEN ON BUSINESS

Exhibit 6: Tabulating Mongolia's performance on Payments indicator

Tax or Mandatory Contribution	Number of Transactions/Year			Total Transactions	
	Payments	Paper Reports	Online Reports	WB (Greater of Payments, or Paper, Plus Online)	Actual (WB + Paper)
Employer paid- Social insurance contributions	12	12	12	12	24
Value added tax (VAT)	12	12	12	12	24
Corporate income tax	12	4	4	12	16
Property transfer tax (Paid jointly)*	0	0	0	0	0
Property tax	1	1	0	1	1
Vehicle tax	4	4	0	4	4
Interest tax (Paid jointly)*	0	0	0	0	0
Quarterly Financial Reports to MOF	0	4	4	0	8
Employee Withholding	12	12	12	0	24
Actual Totals	**53**	**49**	**44**	**41**	**101**

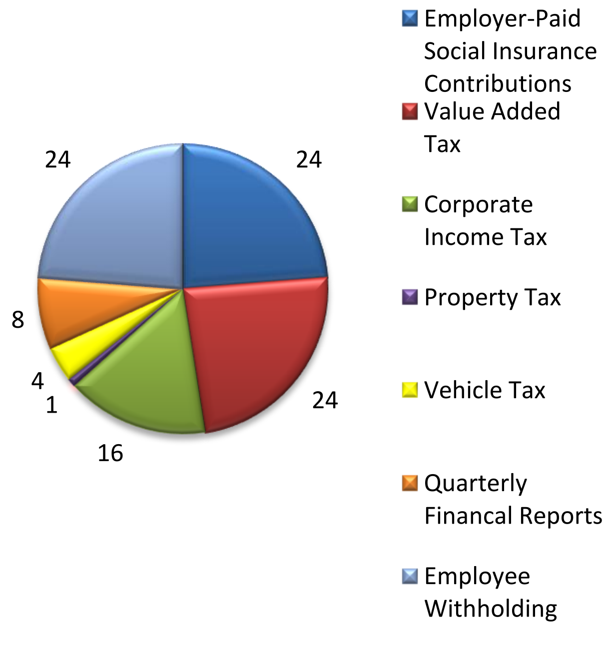
Despite its title, the "Paying Taxes" Payments indicator reflects not only the frequency of payment, but also the frequency of filing reports. Analysis of Mongolia's payments score shows that where, as in the case of corporate income tax, the number of payments annually, 12, differs from the number of reports filed, 4, the Payments indicator counts the highest of the two, rather than adding them together. BPI's calculation of Mongolia's actual payments uses this methodology, but includes three additional compliance obligations that World Bank does not, which are highlighted in yellow in Exhibit 6, above:

- **Mandatory financial reporting:** Mongolia requires businesses to file quarterly and annual financial statements with the Ministry of Finance, a precondition to filing corporate income tax returns. We are not aware of any other country that requires such routine filing of financial statements. If, as the World Bank's methodology states, the Payments indicator is intended to reflect "the number of agencies involved," then mandatory financial reporting should be counted. Although also omitted by World Bank from the Time indicator, the methodology explicitly requires that mandatory financial reporting be included there, as discussed in Section III. Including the mandatory financial reporting in the Payments indicator adds four payments to Mongolia's World Bank score of 41. As we will see hereafter, Mongolian accountants surveyed report that this is by far the most time-consuming obligation, and requires the most highly paid accountants for its preparation.

- **Employee withholding and social insurance:** Despite the fact that employee withholding and social insurance reporting contains the same basic information about employees, Mongolia requires separate reporting and payment to two different agencies. The World Bank includes social insurance because it is paid by the employer, but does not include employee withholding. However, the methodology notes that consumption taxes collected from the consumer on behalf of the tax agencies, such as VAT, are included. "Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure." By the same reasoning, employee withholding should also be included, because, although paid on behalf of the employee, they add to the company's administrative burden. Including employee withholding would add an additional 12 payments to the World Bank's Payments score of 41.

- **Duplicative paper and online filing:** The World Bank's methodology and international practice is that e-filing is an alternative to paper filing, not in addition to it. In Mongolia, however, businesses have been required to file paper reports in addition to online reports. Even more burdensome for business is the fact that true e-filing is not available. Government authorities everywhere require some legally binding acknowledgement that mandatory reports are official records of the businesses in order to hold the company and officials liable if the reports are not accurate. Until June 1, 2012, Mongolia achieved this by requiring that all reports be filed in paper form with physical signatures. However, paper-based reporting makes regulatory oversight costly, time-consuming, and ineffective. Organizing information on tens of thousands of taxpayers to discern patterns and trends, identify avoidance, and create risk management systems, etc., is far easier when the data is in digital form. In many countries, data entry clerks working for the tax department copy taxpayers' paper reports into an electronic database. In Mongolia, however, this burden has been shifted to the taxpayer. GDT, MOF, and the Social Insurance Department (SID) have "encouraged" most taxpayers to copy information from their paper returns into online systems. This duplication not only wastes time for the taxpayer, but increases the possibilities for error as the same data is manually copied into the online system. World Bank's tabulation of Mongolia's Payments score does not include the duplicative filing of both paper and online reports. As shown on Exhibit 6, adding the duplicative online reports to the payments and filings included by World Bank adds 44 payments to Mongolia's DB 2012 score of 41.

Exhibit 7 – Number of Payments and Reports per Year



If all three additional reporting requirements noted above are added, Mongolia's Payments score would increase by 60, to 101, which would rank Mongolia 181st. The additional 60 includes four for quarterly financial reporting, 12 for employee withholding, and 44 for the duplicative online reports. Among the 183 countries surveyed, Mongolia would be ahead of only Romania with 113 payments and Ukraine with 135.

Exhibit 8: Tabulating Mongolia's performance on Time indicator

Tax or Mandatory Contribution	WB Total Time	Actual Times as Reported by Mongolian Accountants								
		Calculate Tax, Fill Out Forms	Pay Tax	Times per Year	Annual Hours: Prepare and Pay	File Paper Reports	File Online Reports	Times per Year	Annual Hours: File Reports	Total Annual Hours
Employer paid-Social insurance contributions	63	3.4	0.25	12	43.8	1.8	1.2	12	36.6	80.4
Value added tax (VAT)	72	9.1	0.25	12	111.6	2.9	1.4	12	51.5	163.1
Quarterly Financial Reports to MOF	0.0	45.8	0.00	4	183.3	6.0	2.1	4	32.5	215.8
Corporate income tax	57	2.0	0.25	12	27.3	5.5	1.5	4	27.8	55.1
Employee Withholding*	0	4.3	0.25	12	54.7	0.0	2.0	12	23.7	78.4
Totals	**192**	**68.9**	**1.00**	**52**	**438.0**	**16.2**	**8.2**	**44**	**172.1**	**592.8**

*No time is allocated for filing paper reports for Employee Withholding because accountants report that it is usually submitted along with the Corporate Income Tax Report.

In tabulating Payments, we used the greater of annual tax payments or paper reports required for each tax. In calculating Time, we include the hours required every step required for full compliance.

As tabulated on the *Doing Business* 2012 report, Exhibit 8, above, Mongolia's Time score is 192 hours, which ranks 69th among the 183 countries surveyed. World Bank includes only three taxes – employer paid social insurance contributions – 63 hours, VAT – 72 hours, and corporate income tax – 57 hours. BPI's tabulation of the actual time incurred by an average business to comply with its tax obligations is 593 hours, which would rank Mongolia 170th out of 183 countries. Exhibit 8, above, includes the three additional reporting burdens, shown in yellow highlight, with times based on the average of times reported by a survey of accountants.[14] While, as noted above, the Payments methodology is unclear about whether Mongolia's three additional reporting burdens should be included, the Time methodology appears to require their inclusion:

- **Mandatory financial reporting:** Although financial statements are only filed quarterly, accountants report they take significantly more time to prepare – 215.8 hours on average – than the other obligations. The Time methodology states, "If separate accounting books must be kept for tax purposes—or separate calculations made—the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements."[15] Since Mongolia requires businesses to file quarterly and annual financial statements with the Ministry of Finance as a precondition to filing corporate income tax returns, and

[14] Times shown in the "Pay Tax" column are merely estimates of the time required to pay online. Information about how many business actually pay online as opposed to physically going to a bank and how long it requires was not elicited on the survey.

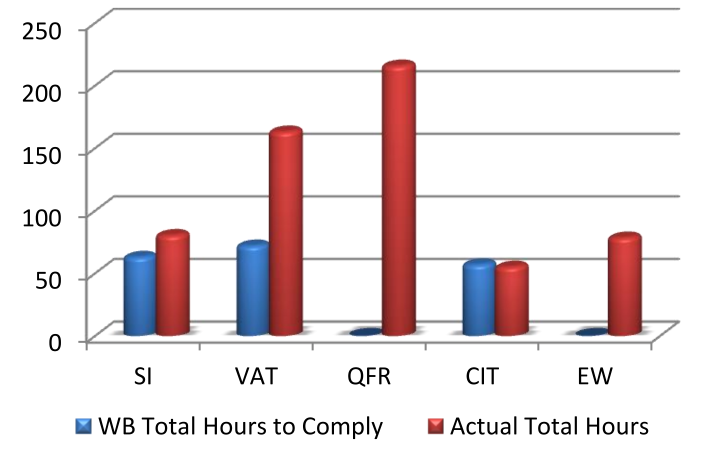
[15] *See*, Footnote 5.

requires them to comply with International Financial Reporting Standards, this reporting should be included.

- **Employee withholding:** Accountants report that paper reports for employee withholding are usually submitted at the same time as paper reports for corporate income tax. Accordingly, no time is allocated for filing paper reports for employee withholding. The Time methodology explicitly requires inclusion of employee withholding in the calculations: "The indicator measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax, and labor taxes, *including payroll taxes* and social contributions." Emphasis added.

- **Duplicative paper and online filing:** The World Bank's Time methodology also requires including the additional time for copying data into the online systems. Filing time includes the time to *complete all necessary tax return forms and file the relevant returns* at the tax authority." Emphasis added.

Exhibit 9 – Time to comply with paying taxes per activity (in hours)



The times noted in Exhibit 8 for the various steps required in computing tax due, preparing forms, paying, and filing paper and online reports are averages from a survey of 15 accountants conducted in cooperation with the Mongolian Employers Federation.[16]

The highest estimate of time for every transaction was discarded in calculating average transaction times. BPI will continue working to enlarge the survey sample size to about 30-50 respondents. However, the point of the exercise is not to get a mathematically precise calculation, but an order of magnitude estimate that errs on the conservative side. Attempts to be mathematically precise require more time and effort and distract from actually implementing reforms. Simple calculations with methods and assumptions clearly disclosed allow those reviewing estimates of the costs of regulatory inefficiency to evaluate for themselves the likely degree of accuracy.

[16] The survey sample included:

- Two firms with less than 10 million MNT in annual sales;
- Two firms with 50-100 million MNT in annual sales;
- Five firms with 100-240 million MNT in annual sales; and,
- Six firms with more than 240 million MNT in annual sales.

SECTION IV: CALCULATING COMPLIANCE COSTS OF PAYING TAXES

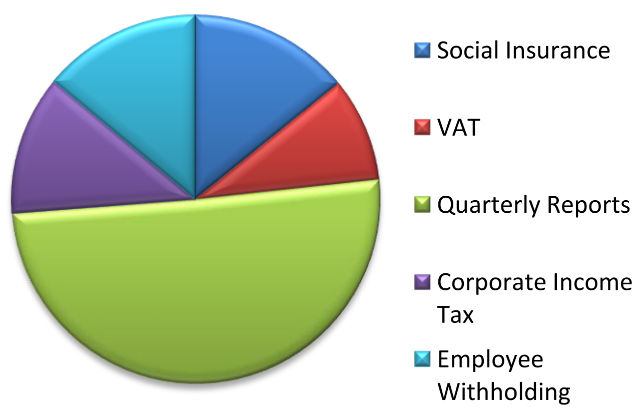
Exhibit 10: Calculating costs (MNT) for taxpayers of complying with tax obligations

Tax or Mandatory Contribution	Total Time	Average Monthly Salary	Average Hourly Rate	Annual Cost per Firm (MNT)	Number Taxpayers	Total Cost per Tax
Employer paid - Social insurance contributions	80.4	495,000	2,878	231,366	57,192	13,232,300,233
Value added tax (VAT)	163.1	535,000	3,110	507,317	16,805	8,525,459,840
Quarterly Financial Reports to MOF	215.8	600,000	3,488	752,854	62,765	47,252,889,006
Corporate income tax	55.1	570,833	3,319	182,866	62,765	11,477,571,596
Employee Withholding**	78.4	500,000	2,907	227,965	57,192	13,037,780,930
Actual Totals	**610.2**	**540,167**	**3,141**	**1,962,812**	**256,719**	**93,921,779,937**

Once the number of transactions, Section II, and the time required for each transaction, Section III, are identified, calculating the costs of inefficiency requires identifying what level of employee, in this case of accountant, generally performs each task and what this employee's average hourly wage is.[17] Multiplying the number of each type of transaction times the number of hours required per transaction times the average hourly wage of the person performing the task gives us the total cost of the compliance burden.

The final step in the process of quantifying the costs of compliance with tax obligations leads to an unexpected result – quarterly financial reporting to the Ministry of Finance costs more than all the other taxes combined. As noted on Exhibit 8, mandatory financial reporting to the MOF accounts for more time than any other tax obligation, about 1/3 of the total, despite the fact that reporting is only quarterly and no payments are required. As appears from Exhibit 10, above, quarterly financial reports are also prepared by the most senior, most expensive accountants. The result is that quarterly financial reporting alone costs 47.3 billion MNT, slightly more than 50% of the total annual costs of about 94 billion MNT.

Exhibit 11 – Total compliance cost per tax type



This surprising result demonstrates the value of quantifying the costs of regulatory burdens, and elevates quarterly financial reporting as a reform priority. We turn now to a discussion of GDT reforms already underway, additional BPI reform recommendations, and the impact these reforms will have in reducing the compliance burdens businesses face in paying taxes.

[17] The hourly wage is determined by dividing the monthly wage by 172 hours, the average number of working hours in a month.

SECTION V: REFORMS TO MAKE MONGOLIA TOP 10 IN "PAYING TAXES"

The discussion that follows in this section will examine reforms that are actually underway at GDT, and recommend additional reforms that, with political will, GDT and other agencies could implement simply and quickly to reduce the costs businesses bear in complying with their financial and tax reporting obligations. We will also estimate the impact that these reforms will have on Mongolia's "Paying Taxes" indicator, using the costs calculated above and reasonable assumptions about likely impacts to estimate the monetized benefits of the reforms discussed below.

A. "Ruthless Transactional Efficiency" – GDT's Georgian-Style reforms

GDT is pursuing a series of reforms that will simultaneously dramatically reduce the time and expense for Mongolian businesses to comply with tax reporting requirements while improving GDT's ability to detect tax evasion and avoidance. As we will see, an additional benefit of GDT's approach will be to catapult Mongolia into world class status on its "Paying Taxes" ranking, perhaps even into the top ten. GDT's reforms share some of the unique features that characterize Georgia's approach to reform. This approach, unfortunately, is rather rare in development, but has been proven to be extraordinarily effective. Following this theoretical discussion of how to reform, we will describe with particularity the specific reforms that GDT has underway, as well additional reforms that GDT and other agencies could, with political will, implement at very little cost to produce great savings for business. Lest we forget, the reason that reducing the costs of compliance with regulatory regimes is so important is that it liberates capital to be used for productive purposes like expansion, job creation, and growth in profits, which ends by generating more taxable income and greater revenues for the state budget.

Simeon Djankov, former Chief Economist for Finance of the World Bank Group and now Deputy Prime Minister and Minister of Finance of Bulgaria, was the principal designer and methodological mastermind for the *Doing Business* survey. Mr. Djankov says that no country has ever reformed so far, so fast, so deeply, and seen such immediate results as Georgia. Among the reasons for Georgia's success are:

- Georgia quantified the costs of inefficiency and monetized the benefits of reform for business and government at every opportunity. As we have seen in the case of quarterly financial reporting to the MOF in Mongolia, calculating the monetary costs of compliance helps to identify and prioritize the biggest burdens. It also empowers reform advocates with powerful arguments, and helps build political will, as well as ensure public recognition for serious reforms and those who implement them.
- Traditional approaches to development have involved comprehensive legal reforms, introduction of new regulations and bureaucracies, and four-year plans that are arguably even less effective than the five-year plans popular under predecessor governments. Georgia introduced a determined focus on process that came to be known as "ruthless transactional efficiency." This approach involves paring every transaction between business and government down to its essential core. Government officials reported that simplifying every interaction to the maximum extent possible was also their most effective tool in rooting out corruption.
- Georgian reformers had an approach to reforming each transaction called "aggressive incrementalism." They attacked every transaction from multiple angles as quickly as possible. Rather than waiting for large-scale, long-term, comprehensive reform, the Government of Georgia used every available legal option for improving transaction

processes, while continuously broadening their legal options to permit even more reforms. In most cases, improving a transaction to the maximum extent possible requires a combination of changing bad practice by a simple order of management, issuing new or revised regulations, which takes a bit longer, or changing the governing law, which takes the longest. Georgia worked on all three simultaneously, immediately revising bad practices, while working on getting new regulations, and then amended laws.

GDT's approach to reform is very Georgian. Its attack on the high compliance costs of paying taxes from multiple directions is a classic example of pursuing "ruthless transactional efficiency" from every angle:

- Introduction in May 2012 of **e-signatures** means that no taxpayer will ever again have to file paper reports for three taxes – VAT, corporate income, and employee withholding. GDT's implementation of e-signatures is "aggressive incrementalism" at its best. Eventually, all Mongolian businesses and citizens will have e-signatures that can replace physical signatures and eliminate the need for paper. However, Mongolia's E-Signature Law does not take effect until January 1, 2013, and it may take two years or more to implement a national comprehensive e-signature system. GDT didn't wait. It used the authority and jurisdiction it already has to develop early its own contract-based e-signature implementation. Beginning June 1, 2012, taxpayers who enter a contract with GDT agreeing that their GDT e-signature is the equivalent of their physical signature can liberate themselves from filing paper for the three covered taxes.
- GDT is working with the Mongolian Software Association (MOSA) and BPI to develop standard file specifications that developers of accounting programs can use to build in **true e-filing**. This will enable businesses to file their tax reports with a push of a button from within their accounting software, rather than having to copy information from paper reports into the online reporting system.
- GDT is also working with Mongolian financial institutions to broaden the range of options for businesses to pay their taxes and GDT administrative fees, so they no longer have to physically go and pay at banks. GDT's **e-payment initiative** includes procuring credit card readers for tax offices and integrating with internet and mobile banking systems. Calculations of the impact of these reforms is not discussed herein, but savings to business can be calculated when the reforms come online.
- GDT is also working to **simplify report formats**, to reduce the time required for reporting. While current law requires that data be reported that may serve no purpose, particularly for smaller businesses, GDT is using what leeway it has to simplify reporting, while pursuing legislative changes that will allow even greater simplification.
- Finally, GDT is working with about 50 government agencies to negotiate contracts to share information electronically. This **data exchange initiative** will improve compliance controls and the agencies' ability to enforce the laws over which they have jurisdiction.

B. BPI's recommendations for additional reforms

Based on our analysis of the compliance burdens on business to pay taxes, BPI offers a series of reform recommendations. The first set of recommendations is for reforms that can be implemented by May 31, 2013, reducing the compliance costs businesses face in paying taxes in time to be reflected in the World Bank's *Doing Business* 2014 report. The monetized benefits and impact on Mongolia's "Paying Taxes" ranking of this set of reforms will be estimated in the section that follows. The second set of recommendations is for reforms that are not as directly related to paying taxes, or may take longer to implement because of the need for changes to law, etc.

1. BPI recommendations for immediate reforms

- MOF and the Social Insurance Department should immediately implement a contract-based electronic reporting system to eliminate the paper reports they now require. GDT's implementation, relying on a public-private key encryption system, is complex, and may be beyond the means of other agencies. But why not share GDT's e-signature system, which would avoid the cost of duplication and businesses having to have multiple e-signatures? A less costly and complex alternative used in other countries is to simply issue a username and password or PIN number, as the U.S. Internal Revenue Service does. With political will and a sense of urgency about reducing compliance burdens on taxpayers, a contract-based electronic reporting system could eliminate paper reporting at MOF and the Social Insurance Department within two-three months.
- MOF and the Social Insurance Department should also join with GDT and MOSA to develop and publish standard file formats to enable true e-filing. Were the IT agencies of these agencies and MOSA to work together, a likely result would be greater data standardization among the agencies and elimination of duplicate data requests. Development of data and encoding standards for true e-filing is a relatively simple technical issue. Publishing the standards to software producers should take no more than a month or two at most. Software producers say they can implement true e-filing within a matter of days or weeks. In addition to easing burdens on business, true e-filing will make Mongolian-produced accounting software more attractive, particularly to smaller businesses, expanding the market and generating increased sales for MOSA members.
- GDT and the SID should agree on a unified approach to reporting and payment for employee withholding, which GDT collects, and social insurance, which SID collects. The same basic reporting information is required for both. There should be one report and one payment. The agencies themselves can automate information sharing, and one could write the other a check. Whatever the solution, it makes no sense to double the burden on business because government can't communicate with itself.
- Vehicle tax reports and payments are made quarterly. Mongolia should consider whether the costs of administration for government and compliance for business make annual reporting and payment more appropriate for this minor tax.

2. Longer-term BPI recommendations:

- The surprisingly high cost of quarterly financial reporting to the Ministry of Finance makes it an urgent priority for reform. Significant savings would result if the MOF joins GDT's e-signature and true e-filing reforms. But Mongolia, which appears to be unique among nations in requiring this, may want to consider abolishing it altogether. At a minimum, Mongolia should tailor reporting requirements to business size and operating needs. Requiring every business to comply with International Financial Reporting Standards is extraordinarily burdensome for smaller businesses. If Mongolia wants to retain the requirement, it may want to consider using it as an opportunity to provide value. Accurate financial reporting can produce a number of very useful financial ratios that even small businesses can use to improve their finances and operations, often with dramatic increases in profitability. Moreover, MOF has a unique asset – years of financial statements for businesses of all sizes and sectors. The statements can by sorted by the type and size of business. Providing businesses with the ability to compare their own financial ratios with the average ratios of other businesses of the same type would be a very useful tool for helping taxpayers improve their profitability. In addition, the information can be very useful to GDT in improving its risk management systems to detect tax evasion. Such processes can be automated.

- Institutionalizing an ongoing, collaborative relationship between MOSA and revenue agency IT managers will lead to more opportunities to save time and money for business and government while increasing sales for MOSA members. For example, GDT recently began requiring VAT sellers to use pre-printed, numbered invoices. Georgia's State Revenue Service worked with IT companies there to allow businesses to use their accounting software to request a range of VAT invoice numbers online. This system avoids the cost of producing and administering the paper invoice system, and allows businesses to print invoices from their accounting software, using the numbers assigned by GDT, reducing the time and expense of accurate accounting.
- GDT's data exchange initiative with other agencies appears designed to increase the ability of government regulators to ensure compliance. Expanding the dialogue to ask business what information it needs government to share could dramatically reduce the costs of doing business in Mongolia. Two examples:
  - In 2011, GDT issued 66,598 tax compliance certificates for businesses, primarily to comply with requirements of other government agencies. The process requires an official letter from the company, and a visit to a tax office where officials look up the company's tax records, and issue a certificate, duly signed and officially stamped, which the company then has to take to another government agency. This is absurd. The process can be completely automated. Let the company make a request online that triggers a simple yes/no query to the GDT database, and, if no taxes are owed and all reports have been timely filed, generates an email message to whatever agency the taxpayer has requested receive it. Eventually, other agencies can improve their own IT systems so that they automatically generate the inquiry directly to GDT whenever a business opens a new transaction with them.
  - The previously mentioned issue of Certificates of State Registration, which MNCCI documents is required multiple times by multiple agencies for a single import or export shipment, is another egregious example of government requiring business to tell government what government already knows.

Behind much of the silliness of this sort is an unduly bureaucratic approach to information sharing. Current law requires officially signed and stamped requests from those requesting information, whether a private person, business, or another government agency. To be official, the information released must also be officially signed and stamped by the issuing agency. Mongolia needs to re-think its policy on information handling. If information is not confidential, why are official requests and official responses necessary? When one government agency asks another for information, especially over a secure electronic connection, isn't that signature enough? As Mongolia builds out its public IT infrastructure publicly accessible government databases will develop. Why should any signature ever be required for a print out from such a database – an online business registry for example, when the information it contains is immediately available for verification?

SECTION VI: ESTIMATING THE BENEFITS TO BUSINESS OF NEAR-TERM REFORMS TO "PAYING TAXES"

This section calculates the benefits of the GDT reforms already underway and those BPI recommends for implementation by May 31, 2013. The discussion includes estimates of three types of impacts:

- Improvements in Mongolia's "Paying Taxes" Payments indicator, both as tabulated by the World Bank and including the additional reporting burdens identified earlier;
- Improvements in Mongolia's "Paying Taxes" Time indicator, again to both the World Bank tabulation and to the total time including the three additional burdens; and,
- Monetary benefits to business in reducing the costs of compliance.

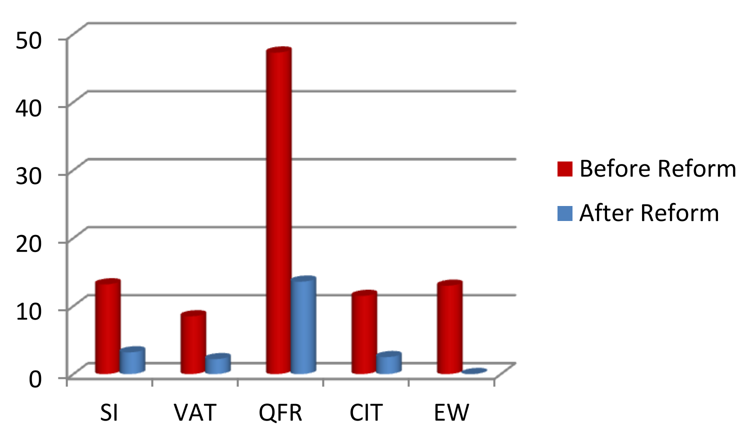
Exhibits 12 and 14, below, summarize the impact of the near-term reforms. Exhibit 12 shows the impact of the entire set of reforms on each tax. Exhibit 14 displays the impact of each reform across all taxes. The more detailed data on impacts on which these summary tables rely are presented in Appendix 1 for Payments, Appendix 2 for Time, and Appendix 3 for costs.

Exhibit 12: Reform reductions in payments, time, cost allocated by tax

Tax or Mandatory Contribution	Payments		Time per Firm		Total Annual Cost for All Firms		
	Before Reform	After Reform	Before Reform	After Reform	Before Reform	After Reform	Annual Savings
Employer paid- Social insurance contributions	24	1	80.4	19.6	13,232,300,233	3,226,027,814	10,006,272,419
Value added tax (VAT)	24	1	163.1	42.2	8,525,459,840	2,205,851,657	6,319,608,183
Quarterly Financial Reports to MOF	8	1	215.8	62.1	47,252,889,006	13,594,660,148	33,658,228,858
Corporate income tax	16	1	55.1	12.1	11,477,571,596	2,520,483,055	8,957,088,542
Employee Withholding	24	0	78.4	0.0	13,037,780,930	0	13,037,780,930
Property Tax	1	1	N/A	N/A	N/A	N/A	N/A
Vehicle Tax	4	1	N/A	N/A	N/A	N/A	N/A
BPI Totals	**101**	**6**	**592.8**	**136.0**	**93,526,001,606**	**21,547,022,674**	**71,978,978,932**

Exhibit 12, above, summarizes for each tax the dramatic reductions in the compliance burdens on business that would result from implementation of the near term reforms discussed in Section V. BPI estimates that the costs to Mongolian businesses to pay their taxes would about 77 percent, from about 93.5 billion MNT ($71.4 million) to 22 billion MNT ($16.4 million), an annual saving of about 72 billion MNT (or $55 million).

Exhibit 13 – Cost of compliance (in MNT billions)



The impact of the near-term reforms is so great that they could entitle[18] Mongolia to a "Paying Taxes" ranking in the top ten of the 183 countries surveyed, despite the fact that quarterly financial reporting and employee withholding, highlighted in yellow on Exhibit 12, are included in BPI's calculations, but not in the World Bank's.[19] Note that the after reform costs of filing quarterly financial reports with the MOF, about 13.6 billion MNT, represents 63 percent of the total costs of 21.5 billion MNT. Eliminating quarterly financial reporting altogether would reduce the total costs for business to only about 8 billion MNT or $6 million. Exhibit 4 summarizes the impact of the reductions in Mongolia's Payments and Time indicators shown on Exhibit 12 on its *Doing Business* "Paying Taxes" ranking, boosting it from the 57th reported on the 2012 report to about 7th.

[18] The phrasing "could entitle" is used deliberately, to reflect to sources of uncertainty about what Mongolia's actual "Paying Taxes" ranking would be after reform. First, ongoing reforms in other countries may elevate their rankings, bringing Mongolia's down. Second, it often takes two or three years, sometimes longer, for the World Bank to reflect the impacts of reform in the *Doing Business* rankings. This is in part to make sure that businesses actually experience the benefits of putative reforms in practice.

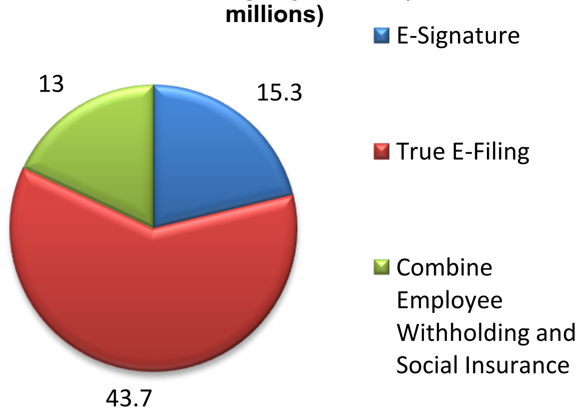
[19] The e-signature reform would eliminate entirely the practice of requiring redundant filing of paper and online reports, the third burden tallied by BPI but not World Bank,

Exhibit 14: Reductions in payments, time, and costs allocated by reform

Reform	Agency	Tax	Comment	Payments	Time	Costs	Totals by Reform		
							Payments	Time	Costs
E-Signature	GDT	VAT	Eliminates filing 12 paper reports	-12	-34.5	-1,803,362,137	-32	-102.6	-15,289,692,663
		Corporate Income Tax	Eliminates filing 4 paper reports	-4	-22.0	-4,582,696,463			
	MOF	Quarterly Financial Reporting	Eliminates filing 4 paper reports	-4	-24.2	-5,294,552,854			
	SID	Social Insurance	Eliminates filing 12 paper reports	-12	-21.9	-3,609,081,209			
True E-Filing	GDT	VAT	Reduces Payments count from 12 to 1; Reduces time and cost to calculate, prepare, pay, and submit report.	-11	-86.4	-4,516,246,047	-36.0	-275.8	-43,651,505,339
		Corporate Income Tax	Reduces Payments count from 12 to 1; Reduces time and cost to calculate, prepare, pay, and submit e-report.	-11	-21.0	-4,374,392,078			
	MOF	Quarterly Financial Reporting	Reduces Payments count from 4 to 1; Reduces time and cost to calculate, prepare, pay, and submit e-report.	-3	-129.5	-28,363,676,004			
	SID	Social Insurance	Reduces Payments count from 12 to 1; Reduces time and cost to calculate, prepare, pay, and submit e-report.	-11	-38.9	-6,397,191,209			
Combine Employee Withholding and Social Insurance	GDT & SID	Social Insurance + Employee Withholding	Combining social insurance and employee withholding eliminate all burdens with one tax. Calculations Employee withholding eliminated because times involved are greater.	-24	-78.4	-13,037,780,930	-24	-78.4	-13,037,780,930
Make Vehicle Tax Annual	GDT	Vehicle Tax	Switch from quarterly to annual eliminates 3 payments	-3	N/A	N/A	-3	N/A	N/A
TOTALS BEFORE REFORM							**101**	**592.8**	**93,526,001,606**
SAVINGS FROM REFORMS							**-95**	**-456.8**	**-71,978,978,932**
TOTALS AFTER REFORMS							**6**	**136.0**	**21,547,022,674**

Exhibit 14 summarizes the impact of each reform on the various taxes. Some observations:

Exhibit 15: **Savings by Reform (in MNT millions)**



- True e-filing generates more than half of the total cost savings for business. About two-thirds of this savings is from reduced costs related to quarterly financial reporting to the MOF. Indeed, true e-filing for quarterly financial reporting generates about 40 percent of total monetary savings and 30 percent of total time savings. BPI's assumptions in calculating savings from true e-filing is that it will reduce costs of calculating and preparing reports by two-thirds. Our estimates of the time and cost of quarterly financial reporting comes directly from Mongolian accountants surveyed, who state it is by far the most time-consuming and costly obligation that businesses must comply with, as discussed in Section IV. True e-filing really does dramatically reduce costs by automating report generation from the accounting information maintained day-to-day in accounting software. However, to the extent that BPI's assumption appears unreasonable, then this is an argument for eliminating the requirement of quarterly financial statements altogether. The rest of the world seems to have done very well without them.
- The e-signature reform, which eliminates the requirement that businesses tell the same agency the same information twice, in different formats, paper and online, eliminates 32 payments, almost as many as the 36 payments reduced by true e-filing.
- Combining social insurance and employee withholding reporting and payment is a robust reform. It reduces Payments by 24, Time by 78.4 hours, and saves over 13 billion MNT annually. BPI's calculations assume that employee withholding is absorbed into social insurance, because Mongolian accountants report that social insurance is less time consuming. See Exhibit 8.

SECTION VII: CONCLUSION: QUESTIONS FOR STAKEHOLDERS

A. Why not reform "Paying Taxes"?

As public and private sectors begin a dialogue about whether and how to implement the recommended near-term reforms, BPI suggests that the following questions be formally discussed:

- *Are there any significant technological issues that cannot be resolved by May 31, 2013?* The recommended reforms are technologically simple, well within the current capacity of the Government of Mongolia. While in some cases one agency might have difficulty implementing, other agencies clearly do have the capacity. Protecting jurisdictional turf is no excuse for imposing unnecessary costs on business that could be easily avoided if government agencies collaborated.
- *Will the reforms impair government's ability to assure compliance?* BPI believes that none of the reforms suggested will in anyway undermine the ability of affected agencies to monitor compliance and detect evasion of business obligations. In fact, to the extent that the reforms foster greater government collaboration and information sharing, they will increase controls. Moreover, the dramatically reduced costs will eliminate a heavy compliance burden that provides some businesses at least with an incentive to cheat in order to survive.
- *Will implementing the reforms have a net cost to government?* This Working Document has calculated only the costs to business of regulatory inefficiency. The costs for government should also be calculated when reforms are actually implemented, and should be considered when discussing the advisability of going forward with reforms. The costs to government of administering the duplicative system of both paper and online filing, for example, are likely to exceed the cost of implementing the e-signature reform required to eliminate paper. Systems have to be developed for maintaining archives of both report formats, and linking them to each other. Paper has to be archived and stored. Computing the storage space required for paper at market rates in high value space at commercial rates is likely to be very high.

If no technological issues prevent reforms, if they won't reduce government's oversight capacity, and they don't cost government more than they save, why can't they be implemented by May 31, 2013?

B. Why not reform Mongolia's overall business enabling environment?

This BPI Working Document has demonstrated that government could, with political will, reduce the onerous compliance burdens businesses bear to pay their taxes by about 77 percent in a matter of months. Simply observing Lejava's First Law – "No government should ever ask a citizen or business for information it already has" – could reduce the cost of paying taxes from 93.5 billion MNT annually to 21.5 billion MNT annually, a savings of 72 billion MNT. MNCCI, in its "Roadmap to Doing Business in Mongolia," has documented numerous examples of government agencies requiring business to tell them what other agencies already know in the case of "Trading Across Borders." An earlier BPI Working Paper, "Preliminary Estimates of the Staggering Costs of Inefficient Trade Regulation," quantified some of the costs to Mongolia of these gross inefficiencies, which include $2 billion in lost trade volumes, and $1.7 billion in lost GDP.

The same basic problem recurs throughout the economy, wherever government regulates business. The same basic solutions are also available. They are technically simple, would not impair government's ability to oversee compliance, and would probably not cost more to implement than government saves in administrative costs. The costs that businesses bear because government requires them to tell it what it already knows is so staggering and so easy to remedy that, with political will, Mongolia could rapidly overhaul its business environment, leading to increased job creation, economic growth, and more profits that produce more in tax revenues. Reforms to other *Doing Business* measures like "Trading Across Borders" and "Dealing with Construction Permits" similar to those underway and recommended for "Paying Taxes" could dramatically improve Mongolia's overall World Bank "Ease of Doing Business" ranking, now 86th. Recognition as a World Bank Top 10 reformer requires that a country implement reforms to a least three of the 10 *Doing Business* measures. Eligible countries are then ranked by how much their reforms improve their overall "Ease of Doing Business" rank. The reforms recommended herein could improve Mongolia's "Paying Taxes" rank from 57th to 7th. That in turn would increase its overall "Ease of Doing Business" rank from 86th to 69th, up 17 places. Morocco, the World Bank's top reformer on *Doing Business* 2012, improved 21 ranks. Number 10, Columbia, improved only five. With reforms to just two more measures, Mongolia could be virtually guaranteed to be a Top 10 reformer on *Doing Business* 2014, which will reflect reforms implemented between June 1, 2012 and May 31, 2013. All that is required is political will and a commitment by government to talk to itself.

ANNEXES

ANNEX A: TABULATING MONGOLIA'S PERFORMANCE ON PAYMENTS INDICATOR

Tax or Mandatory Contribution	Before Reforms					After Reforms	
	Payments (number)	Paper Reports (Number)	WB Total	Online Reports (Number)	BPI Total	Reform	Total After Reforms
Employer paid-Social insurance contributions	12	12	12	12	24	E-Signature, True E-Filing, File jointly with Employee Withholding	1
Value added tax (VAT)	12	12	12	12	24	E-Signature, True E-Filing	1
Corporate income tax	12	4	12	4	16	E-Signature, True E-Filing	1
Property tax	1	1	1	0	1		1
Vehicle tax	4	4	4	0	4	Annual filing	1
WB Totals	**41**	**33**	**41**	**28**	**69**		**5**
Quarterly Financial Reports to MOF	0	4	4	4	8	E-Signature, True E-Filing	1
Employee Withholding	12	12	12	12	24	E-Signature, True E-Filing, File jointly with social insurance	0
BPI Totals	**53**	**49**	**57**	**44**	**101**		**6**

ANNEX B: CALCULATING REDUCTIONS IN TIME FROM REFORM PACKAGE

Tax or Mandatory Contribution	Before - After = Saved	Time to Calculate Tax, Prepare Report, and Pay				Time to File Reports				Impact of Reforms on Time in Hours		
		Calculate, Fill Forms	Hours to Pay	No. Times per Year	Hours per Year	File Paper Report	File Online Report E-File	No. Times per Year	Hours per Year	Before Reform	Hours Saved	After Reform
Employer paid-Social insurance contributions	Before	3.4	0.25	12.0	43.8	1.8	1.22	12.0	36.6	80.4	60.8	19.6
	After	1.1	0.25		16.6	0.0	0.25		3.0			
	Saved	2.3	0.00		27.2	1.8	0.97		33.6			
Value added tax (VAT)	Before	9.1	0.25	12.0	111.6	2.9	1.42	12.0	51.5	163.1	120.9	42.2
	After	3.0	0.25		39.2	0.0	0.25		3.0			
	Saved	6.0	0.00		72.4	2.9	1.17		48.5			
Quarterly Financial Reports to MOF	Before	45.8	0.00	4.0	183.3	6.0	2.09	4.0	32.5	215.8	153.7	62.1
	After	15.3	0.00		61.1	0.0	0.25		1.0			
	Saved	30.5	0.00		122.2	6.0	1.8		31.5			
Corporate income tax	Before	2.0	0.25	12.0	27.3	5.5	1.45	4.0	27.8	55.1	43.0	12.1
	After	0.7	0.25		11.1	0.0	0.25		1.0			
	Saved	1.4	0.00		16.2	5.5	1.2		26.8			
Employee Withholding**	Before	4.3	0.25	12.0	54.7	0.0	1.98	12.0	23.7	78.4	78.4	0.0
	After	0.0	0.00		0.0	0.0	0.00		0.0			
	Saved	4.3	0.00		54.7	0.0	2.0		23.7			
Totals										**592.8**	**456.8**	**136.0**

ANNEX C: CALCULATING COST SAVINGS OF REFORMS FOR BUSINESS

Tax or Mandatory Contribution	Total Time		Accountants Pay		Annual Cost per Firm			Number Taxpayers	Impact of Reforms on Compliance Costs		
	Before Reform	After Reform	Monthly Salary	Hourly Rate	Before Reform	After Reform	Savings per Firm		Before Reform	After Reform	Reform Savings
Employer paid- Social insurance contributions	80.4	19.6	495,000	2,878	231,366	56,407	174,959	57,192	13,232,300,233	3,226,027,814	10,006,272,419
Value added tax (VAT)	163.1	42.2	535,000	3,110	507,317	131,262	376,055	16,805	8,525,459,840	2,205,851,657	6,319,608,183
Quarterly Financial Reports to MOF	215.8	62.1	600,000	3,488	752,854	216,596	536,258	62,765	47,252,889,006	13,594,660,148	33,658,228,858
Corporate income tax	55.1	12.1	570,833	3,319	182,866	40,157	142,708	62,765	11,477,571,596	2,520,483,055	8,957,088,542
Employee Withholding**	78.4	0.0	500,000	2,907	227,965	0	227,965	57,192	13,037,780,930	0	13,037,780,930
BPI Totals	**592.8**	**136.0**	**540,167 Avg**	**3,141 Avg**	**1,902,368**	**444,422**	**1,457,946**	**N/A**	**93,526,001,606**	**21,547,022,674**	**71,978,978,932**